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NATIONAL INTELLIGENCE DAILY CABLE

Thursday May 19, 1977

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Top Secret

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National Intelligence Daily Cable for Thursday, May 19, 1977.

The NID Cable is for the purpose of informing senior US officials.

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ISRAEL: Likud Election Victory

25X1 [] Despite the plurality won by the Likud Party in Tuesday's election in Israel, party leader Menahem Begin faces difficult and protracted negotiations to put together a new majority coalition. At a minimum, these negotiations with the other major parties are likely to take several weeks. Leaders of the Labor Alignment and the Democratic Movement for Change may in fact set such stringent conditions for their participation that Likud will be unable to form a government, and a new election may become necessary.

25X1 [] Democratic Movement leader Yigael Yadin has already hinted that his party will enter a Likud-led government only if offered control of key ministries enabling his party to implement far-reaching political, economic, and social reforms.

25X1 [] Yadin's demand for electoral reform will encounter heated opposition from the National Religious Party--certain to be a key member of any Likud cabinet--which may make it impossible for the Democratic Movement to enter the coalition. The National Religious Party fears that Yadin's call for direct voter election of parliamentary deputies--in contrast to the current system of national party electoral lists--will benefit the larger, wealthier parties and damage its own chances in future parliamentary elections.

25X1 [] Some Labor Party leaders, including the campaign manager, have already stated flatly that they do not believe Labor should enter a Likud cabinet. Party leader and Acting Prime Minister Peres has been more non-committal and may wait to see what Begin offers.

25X1 [] Labor leaders may decide not to enter a Likud-dominated government on any terms, calculating that this would destroy Begin's chances to secure a parliamentary majority.

25X1 [] The Likud victory will confirm the general conviction of Arab leaders that Israel will not make the concessions necessary for a just peace in the Middle East without strong pressure from the US. Begin's immediate post-election statement that he considers the West Bank "an integral part of the state of Israel"--a reiteration of his long-standing demand for annexation of the area--will only deepen this Arab perception.

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[] The formation of a conservative government led by Begin, from which the Arabs could expect little compromise, would in turn tend to reduce Arab willingness to offer the kinds of concessions Israel demands as a prerequisite for a settlement. Arab leaders, moreover, will view any delays in moving toward a negotiated settlement that are caused by Israeli problems in forming a viable coalition government as deliberate stalling tactics by Israeli officials.

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[] Most Arabs see little difference between the positions of Israeli political leaders; in their view, all Israeli officials take a hard line on settlement issues. Begin, however, is particularly anathema to the Arabs, given his former position as head of the Irgun, an Israeli terrorist organization which at times operated against Arabs in Palestine prior to Israeli independence in 1948.

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[] Saudi leaders are hosting a meeting today in Riyadh with Syrian President Asad and Egyptian President Sadat. The Israeli election is certain to be high on their agenda.

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[] Jordan's King Husayn made a point of telling the US ambassador early yesterday that he was disappointed with the result of the Israeli election. While promising not to be overly negative in his public statements, Husayn said that it would be difficult to pretend that "those people over there really want to negotiate a peace settlement."

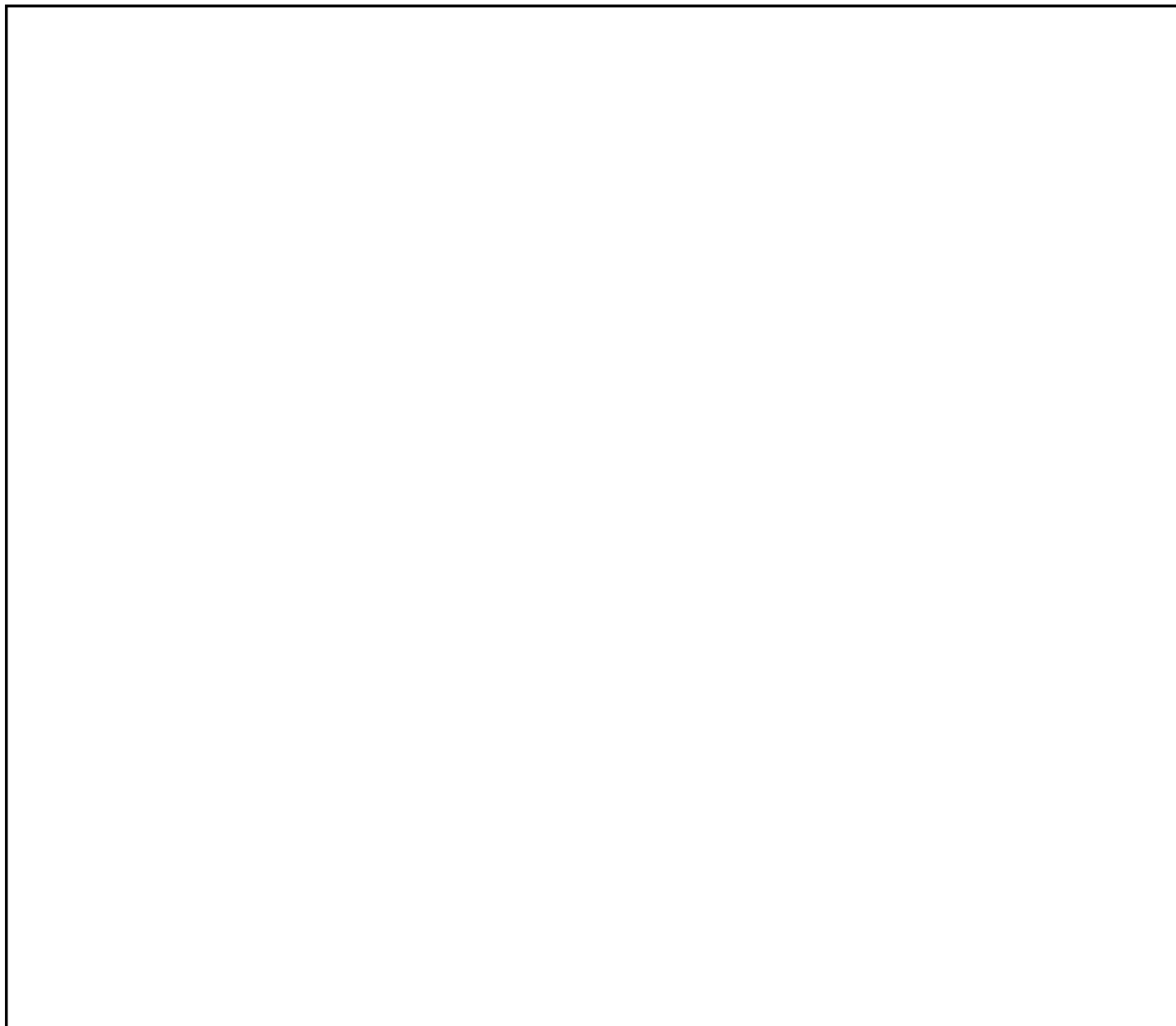
25X1

[] The initial reactions of Arab media to the election results have been predictably negative. Arab commentators have characterized Begin as a terrorist or extremist who maintains an uncompromisingly tough stand against Israeli withdrawal from the occupied territories. Several Arab radio broadcasts have predicted that the Likud victory will erode Arab willingness to engage in negotiations with the Israeli government. Both Damascus radio and a Palestinian spokesman have warned that the election results could move the Middle East closer to a new war.

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USSR-SOUTH YEMEN: Talks

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 *The Soviets apparently used their talks last week with South Yemeni Foreign Minister Muti to register their concern about recent developments in the Red Sea area. The*

[REDACTED]

USSR is still seeking assurance that Saudi Arabia's improved relations with both South Yemen and Somalia will not lead to a reduction of Soviet influence in the region, particularly of the Soviet naval presence in Somalia. Moscow's failure thus far to reconcile differences between Somalia and Ethiopia also threatens to jeopardize the Soviet position in the area.

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[REDACTED] The communique winding up Muti's talks in Moscow focused on events in the Red Sea region and the Horn of Africa. The document recorded Moscow's concern over:

--Efforts by "imperialist and reactionary forces to create fresh hotbeds of international tension" in the region.

--The need to turn the area into a "zone of peace," which is much like the Soviet position on the Indian Ocean that is designed to guarantee a naval presence there.

--Developments in the French Territory of the Afars and Issas that could bring the Somali-Ethiopian situation to a flash point.

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[REDACTED]

[REDACTED] The presidents of Somalia, Sudan, North Yemen, and South Yemen agreed at Taiz to appeal to the Saudis for financial assistance for both economic development and military purchases.

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[REDACTED] Following the meeting in Taiz, an article in *Izvestia* accused Saudi Arabia and Sudan with trying to turn the Red Sea into an "Arab lake" to be controlled by Arab regimes. The article charged that the plan was "anti-Soviet," and the Soviet weekly *New Times* complained that regional actions restricting shipping would be "unfounded and illegal." The Soviets maintain that the West, particularly the US, is encouraging conservative Arab involvement in the region against Moscow's interests.

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[] When Ethiopian leader Mengistu was in Moscow earlier this month, Soviet President Podgorny charged that the "imperialists" were promoting these efforts to the "detriment of free international shipping." The Soviet-Ethiopian communique recorded both countries' opposition to the efforts of "some countries" to establish "control" over the Red Sea. Podgorny specifically denounced the actions of Saudi Arabia; Mengistu's public remarks were aimed at Sudan.

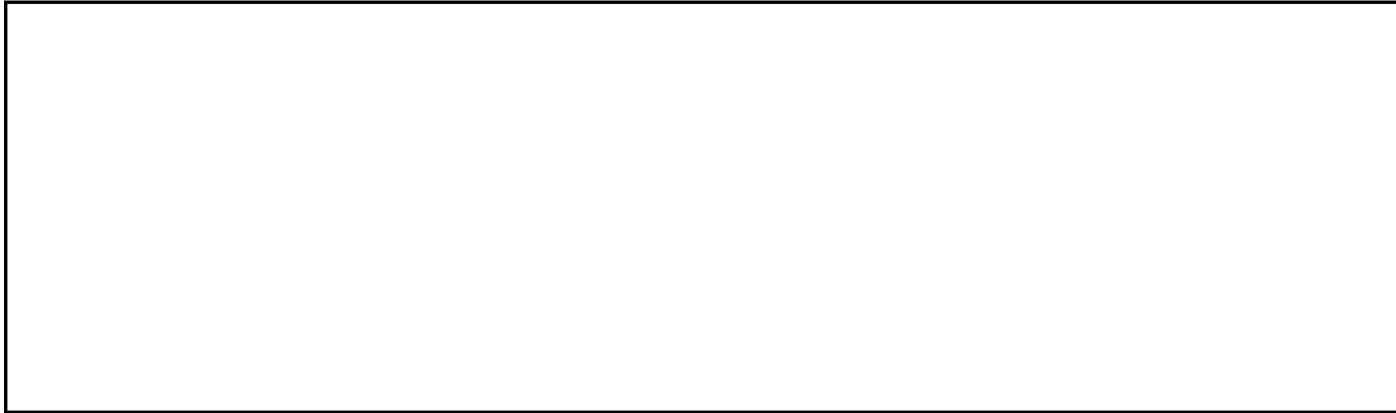
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[] Moscow clearly fears losing its pre-eminent position in both South Yemen and Somalia. The talks with Muti may have assuaged some Soviet concerns with regard to South Yemen; if so, the communique's reference to cooperation in political, economic, and "other fields" could presage additional military and economic aid.

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[] The Soviets must now make another effort to mediate Somali-Ethiopian differences in order to pre-empt Somali appeals to both Saudi Arabia and the US for assistance. []

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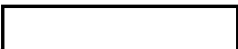


FINLAND: Relations with USSR

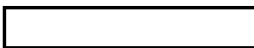
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 //Finnish President Kekkonen signed an unprecedented 15-year trade pact with the Soviets in Moscow this week and concluded an agreement for joint development of the Kostamus mining project in the USSR near the Finnish border. The duration of both agreements commits Finland to additional long-range economic cooperation with the USSR. In the past, broad agreements with the USSR have sometimes preceded Finnish efforts to expand cooperation with the West.//


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 //Kekkonen has gone out of his way to please the Soviets in the past year. In December, he warned Norway against unbalancing the Scandinavian area by permitting West German troops to take part in NATO exercises in Norway. When Soviet Premier Kosygin visited Finland in March, the Finns expressed great satisfaction at the wording in the communique concerning Finnish neutrality.//

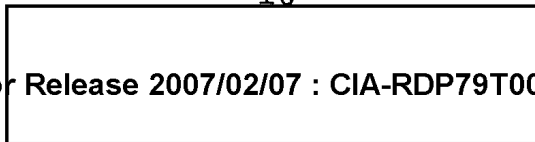
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 //Why Kekkonen feels obliged to court the Soviets so obviously is unclear. His main concern may be the Finnish economy, which is wracked by inflation, balance-of-payments problems, strikes, and unemployment. By improving relations with Moscow through the trade agreement and the mining project, Kekkonen's new popular front government hopes to be in a better position to meet the economic challenges ahead.//

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 //The new economic agreements with the USSR may permit Finland to strengthen ties with its Scandinavian neighbors without appearing to compromise Finnish neutrality. Both Sweden and Denmark are eager to conclude agreements with Norway

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that would give them access to Norwegian oil, and the Finns, now almost totally dependent on Soviet petroleum, might also fare better economically if they were tied into a Nordic energy scheme. The Soviets might not object to such a move by Helsinki with the new economic agreements to serve as a balance to any Nordic commitment.//

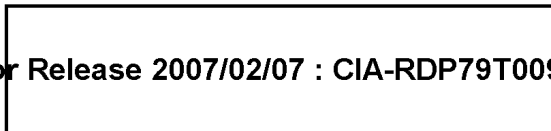
 //Kekkonen's behavior toward the Soviets also could be an effort to tidy up loose ends--ensuring neutrality and strengthening economic ties--prior to his retirement. Although Kekkonen has been endorsed by all the major Finnish parties and is certain to win the presidential election next year if he runs, he has not made known his plans. He will be 77 in September, and he completed 21 years as President last March.//



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**BRAZIL: Student Protests**

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 The Brazilian government is seriously concerned about renewed political activism by students. University students in several parts of the country have recently staged a series of demonstrations, initially to protest academic conditions but increasingly to make political demands. So far, security officials have repounded with restraint.

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 The campus protests last week involved thousands of students in a number of major cities demanding increased political liberalization and the release of eight students and

workers arrested in earlier protests. The demonstrations were by far the largest since the late 1960s, when student activism and leftist subversion--against a backdrop of economic uncertainty--posed a critical test for the government.

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[] In the ensuing years, subversion was wiped out, the students were cowed, and the so-called "economic miracle" took hold. More recently, however, economic problems have again increased, and the regime has faced renewed questioning of its performance by politicians, businessmen, and labor.

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[] President Geisel had initially sought to liberalize his government with a view toward building greater public support. More recently, he has felt obliged, both by changing circumstances and by pressure from conservative military colleagues, to take increasingly tougher measures. His recent temporary closure of congress and subsequent decrees assuring government control of elections have apparently been deciding factors in turning the students' concerns from largely academic matters to more fundamental political questions.

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[] The size and scope of the protests seem to have surprised the government and probably have contributed to a sense of alarm among security officials. Those officials not only apparently disagree as to the origins of the protests, but they are also uncertain how to handle future student problems. For many military officers, however, the current situation is a painful reminder of the late 1960s, and at least some in the military are bound to renew the call for stringent security measures.

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